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SENIORS/BOOMERS NEWSLETTER

"THE RETIREMENT EXPERTS"

October 2011

" How Did You Go Bankrupt? Two Ways: Gradually. Then... Suddenly "

Ernest Hemingway

The picture of this little girl is actually 2 years old…and the number in the meantime has gone up. Today her debt has risen to $47,314. Talk about inflation! Talk about reckless government spending!!!

I read a very illustrative example of how to put our national budget deficit & spending into perspective. Currently our National Debt is $14.8T and our Gross Domestic Product is $14.9T. That means that our debt to GDP ratio is just about 100%. Check it out at www.usdebtclock.org

This year the government will take in roughly $2.3T in revenue…but will spend $3.6T. So we're $1.3T further in the hole for this year alone, creating this new debt level of $14.8T to deal with. So the example I referred to goes like this:

Bob & Sally Jones total annual income	= $23,000
Jone's annual spending	= $36,000
Jone's new debt added to credit cards	= $13,000
Jone's current total credit card debt	= $148,000

Now, the good part. Based on what has been agreed to by our illustrious members of Congress, we will reduce our national budget deficit by…get this…$38.5 billion for the year. Sounds like a lot, but, when you put it back into our example the Jones' will cut $385 from their their annual spending of $36,000. Not likely to put a dent in their total credit card debt. So, the rhetorical questions are: At what point are the Jones' unable to pay the credit card minimums? At what point do the credit card companies refuse to add to their credit limit?

Is there a way out of this mess? Well yes, there actually is. And, we've done it before.

The American Institute of Economic Research put out an excellent report earlier in September and, after analyzing several options, they contend that the only way out of this mess is financial repression coupled with inflation.

Financial repression is what the Fed is currently doing by keeping interest rates low on government debt. If interest rates on government debt remain below the rate of growth, over time the ratio of debt to GDP will go down.

As our dollar loses value, we import inflation. Because we are paying foreign exporters the equivalent of their selling prices in their local currencies, but calculated in US$, our prices rise to adjust for this weaker dollar. The flip side of that coin however, is that we end of paying back money we currently owe with dollars of less value.

For example, back in the 70's the Japanese loaded up on 10 year U.S. Treasuries. Needless to say our government made every coupon payment, without fail. The only problem was that over the 10 year period the dollar lost 40% of its value against the Yen.

The result: The Japanese lenders got back 40% less when they reconverted those dollars back into Yen. Ouch! So, that's the way we pay back debt that we can't repay.

O.K. Where does this leave us? If we expect inflation sooner or later, there are several things we can do to protect our investments and our spending power.

1. Diversify your portfolio…stocks, bonds, emerging markets, international markets, commodities, etc.

2. Invest in precious metals and/or the companies that mine them.

3. Purchase real estate (I know you're probably saying…are you nuts?). Remember, however, real estate mortgage rates are locked in for 30 years, so rising interest rates and inflation won't have any effect on the expense associated with this asset. You can also invest in real estate through Real Estate Investment Trusts (REIT's).

4. Load up on companies with pricing power. You know, the ones that make things that we can't do without. Groceries, medicines, razor blades, toilet paper, etc. These companies can usually pass on price increases faster than most.

5. Foreign Bonds. These usually pay higher coupons and are denominated in a foreign currency...ie; not in U.S. dollars.

6. Inflation-indexed bonds. For instance, Treasury Inflation Protected Securities (TIPS) keep pace with inflation.

7. Buy cash rich blue-chip stocks. The ones with a clean balance sheet, no debt and lots of cash on hand. Many of these companies today are trading at very low multiples and, therefore have little room to drop further.

8. Look for companies that get the majority of their sales & profits overseas. When they repatriate their earnings, those Rubles, Yen, Yuan, Reals, etc. they will buy more U.S. dollars when converted.

9. Dividend paying stocks have to be part of your protective shield. Here you want to look for not just any company paying a dividend, but a strong well known brand name. What's especially useful is a company who increases their dividend yearly. Every dividend increase is a pay raise for you…and a way to keep pace or keep ahead of inflation.

So, this kinds of leads me to the discussion of where this volatile market is going?

*The market, on an absolute basis, is cheaper today than it was three years ago.

*Company earnings today continue to set all-time records.

*Many companies are trading at less than 10 times cash flow. What's not to like about that?

*Corporate balance sheets are the strongest they've been since the post war 1950's.

*The Federal Reserve has stated that rates will remain at all-time lows for at least two more years. This is VERY accommodative for the stock market.

*We have had 8 consecutive quarters of GDP growth. Although unemployment is at unacceptable levels, we are still seeing growth in the economy.

In the end, it will pay to look out further than days, weeks or even months. Unless you're attempting to time the market, buy solid, healthy companies that will still be here in the years to come. This will help you get over the day-to-day gyrations.

If you have personal concerns that you'd like to discuss with me, please feel free to set up a *complimentary* appointment whenever it's convenient for you. Call my office at 908-236-7500.

MISCELLANY ☺

☺ **If you are looking for Medicare Providers in your area, go to www.medicare.gov and click on "Facilities & Doctors". Enter your zip code and the type of doctor you're looking for.**

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☺ **If you're looking for a job, you can find over 800,000 listings taken from actual company websites at www.linkup.com**

☺ **If you have someone in the family heading off to college and got sticker shock from the cost of the textbooks, here are a couple of MUCH cheaper options:**
www.CourseSmart.com
www.BookRenter.com
www.Amazon.com
www.DirectTextbook.com

The Secret to Building Real Wealth

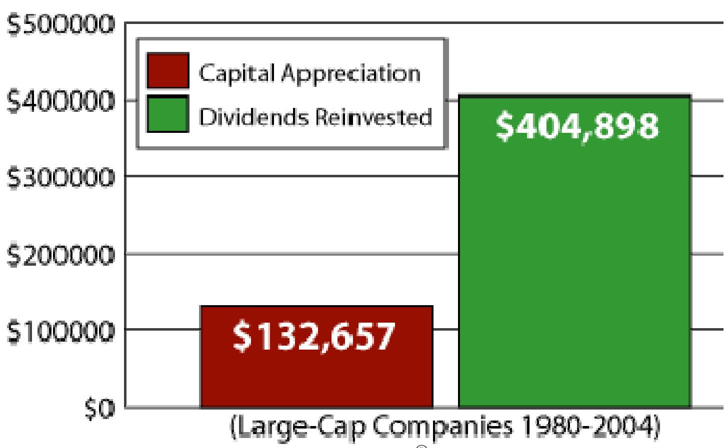
There are many ways to build wealth, and here is but one of them:

1. **Buy the best dividend-paying stocks, and**
2. **Reinvest the dividends.**

Do this and you've built an instant money machine.

For example, here's the difference reinvesting dividends can make.

The Power of Reinvesting Dividends



Ibbotson Associates®

It's true. If you had invested $10,000 in Ibbotson's large-cap companies and held them for 25 years, you could have sold them for about $130,000. Not too shabby. Had you reinvested the dividends, however, that amount would have grown to more than $400,000.

What a difference. Dividends really do matter. Stocks have done well — no matter how you slice it. You can see that clearly from the chart. You can also see that dividends can make the difference between merely doing well and quietly amassing a fortune.

6 Secrets of Dividend Investing: How You Can Earn Great Returns with Less Risk

Finding the best dividend stocks takes some legwork and careful analysis. But here's how you can find the best long-term winners:

1. **Avoid the Highest Dividend Stocks —** You can't pick stocks by dividend yield alone. Above-normal dividends are often a red flag for a company in distress. Studies have consistently shown that you will earn higher long-term returns by avoiding risky stocks with overly high dividends.

2. **Beware the "Dividend Time Bombs" —** Not all dividends are created equal. Even if a company has a generous dividend, it must be able to maintain it. A "doomed-to-be-cut" dividend can be worse than no dividend at all. Once a dividend is cut, it's likely to make the share price fall also.

3. **Cash Is King —** Free cash flow (FCF) is the true health of the business. Find the companies that generate tons of it. Even in the worst of times, those flush with greenbacks have options. Firms with cash can buy back their shares to raise stock prices, make their debt payments, increase dividends, and buy other profitable businesses. That's why cash flow is the single most important factor that determines value in the marketplace.

4. **Don't Focus on Income without Growth —** Only growing businesses are truly healthy. So cash flow needs to be strong enough to not only pay a healthy dividend but also generate enough cash to grow and stay strong strategically.

5. **Don't Forget Value —** An investment's total yield depends on both the dividend amount and the stock price. Stocks of companies making real products don't often make the headlines. So dividend stocks can also be a great source of hidden value. Finding value by focusing on dividends first can help you avoid catching the "falling knives" that trap some value investors.

6. **Have a Longer-Term Focus —** Many brokerage houses make investment recommendations based on a very short-term view of the world — often a maximum 12-month timeframe. Individual investors should have at least a three- to five-year view when considering investments. More time helps you fully realize the true power of compounding dividends.

The Best Way to Secure Your Financial Dreams

Dividend-paying stocks are absolutely the fastest and most reliable way to achieve financial security and independence. Here are five reasons why you should love dividend stocks right now:

- **They're beating the market.** According to Standard & Poor's, dividend-paying stocks outperform non-dividend payers.
- **They're low risk.** Since the companies pay out cash, investors are more willing to hold dividend stocks through bear markets. Hence, they don't fall as far or as quickly as non-dividend stocks. These stocks become a magnet for investors seeking security.
- **They earn much better yields with lower taxes.** For the time being, dividends are taxed at only 15%. Compare that to interest on your savings, CD, or money market account that is taxed as ordinary income — up to 35%!
- **They help you avoid the Enrons of tomorrow**. Dividends don't lie. For example, between 1997 and 2000, Enron's "earnings" rose 69% but dividends rose only 9%. That's a sure sign that something fishy was going on. Paper profits can fool analysts but hard cash can't be faked.
- **By reinvesting dividends, you "dollar-cost average" and get the power of compounding automatically.** Reinvesting dividends improves your portfolio's long-term returns by buying more shares when the price is low and by helping your profits earn more profits.

Dividends aren't just for retirees. They're for anyone who wants to amass great wealth with low risk. Do you think it's boring to make great returns — and sleep like a baby at night? We don't.

If you would like free information on any of the subjects discussed in this month's newsletter, please call my office at your convenience. 908-236-7500

I think these people would like to receive your newsletter and an invitation to your next public presentation:

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City ______________________

State ______________________

Zip ______________________

REMINDER:

Upcoming Workshops

(AT MY OFFICE IN LEBANON)

1.UNDERSTANDING BONDS, PREFERRED SHARES & DIVIDEND PAYING STOCKS:
October 6, 14, 20, 28 between noon and 1:00 pm

2.NAVIGATING A VOLATILE STOCK MARKET (CAN YOU AFFFORD TO GET OUT?)
October 7, 13, 21, 27 between noon and 1:00 pm

THESE ARE LUNCH & LEARN WORKSHOPS WITH NO COST, NO OBLIGATION & NO SALES….JUST LOTS OF FUN AND LEARNING!

Come on out and bring a friend. Call 24/7 to reserve: 908-693-7194